

MEMORANDUM FOR HEADS OF FIELD ELEMENTS

FROM: ELIZABETH E. SMEDLEY
ACTING CHIEF FINANCIAL OFFICER

SUBJECT: FY 1997 Management Representation Letter

The Government Management Reform Act of 1994 requires Federal agencies to prepare and audit consolidated financial statements. At the Department of Energy, the Office of Chief Financial Officer (CFO) will submit fiscal year 1997 financial statements to the Office of Inspector General for audit later this year. In order to formulate an opinion on the Department's financial statements, Auditing Standards require the Inspector General to obtain representations from senior management which acknowledge the Department's responsibility for the fair presentation of financial statements and accurate financial reporting. This representation letter will include specific assertions that all known liabilities have been disclosed and assets are fairly valued.

To prepare for the final representation letter, due in January, each Field Chief Financial Officer will be required to submit a management representation letter addressed to the Secretary through the Head of the Departmental Element. Field elements will, to the best of their ability, make representations over areas of which they have knowledge and authority. For example, each field element will provide assurances that all capital assets are properly classified as either construction work-in-progress or completed projects. The assertions will be based upon a detailed analysis of your respective financial information. Field elements' representation letters should be submitted by November 7, 1997. These letters will serve to support the final management representation letter package transmitted by the Secretary to the Inspector General. A sample of the final package is provided for your use as attachment A. Detailed requirements relating to the Field CFO's management representation letters are discussed in attachment B.

There are several new assertions for FY 1997. Field elements will be attesting to (1) the accuracy and reliability of financial performance measurement data submitted to Headquarters and used in developing Department-wide data, (2) the completeness of cost estimates developed in response to guidance in the area of unfunded liabilities, and (3) the allocation of costs to responsibility segments as required in Statement of Federal Financial Accounting Standard Number 4, Managerial Cost Accounting Concepts and Standards for the Federal Government. Additionally, offices with programmatic responsibilities will also be attesting to assertions in the final representation letter package. As a result, some program personnel may be contacting you with specific questions relating to your site. If you have any questions on the representation letter process, call Genoa Mitchell on 301-903-1243.

Attachments

cc:
Field Chief Financial Officers
Director, Capital Accounting Center

MEMORANDUM FOR THE INSPECTOR GENERAL

FROM: FEDERICO F. PEÑA

SUBJECT: Fiscal Year 1997 Management Representation Letter

As part of your audit of the Department's financial statements for fiscal year 1997, I understand you require letters of representation from senior management as an integral part of expressing an audit opinion on this statement. Accordingly, I am transmitting representation letters signed by the Department's Senior Management. I have no knowledge of information which contradicts the representations, nor am I aware of any additional matters or occurrences up to the date of this memorandum that could materially affect the Department's financial statements, other than those already disclosed.

I understand and acknowledge management's responsibility for the fair presentation of the Department's financial statements. The statements were prepared in accordance with applicable accounting standards and principles.

Attachments

MEMORANDUM FOR THE INSPECTOR GENERAL

SUBJECT: Fiscal Year 1997 Management Representation Letter

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit of the consolidated financial statements of the Department of Energy as of September 30, 1997. We recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in assisting you to form an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations, changes in financial position, and reconciliation to the Department's budget in conformity with the applicable accounting standards described in Note 1 of the financial statements.

GENERAL

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| CFO | 1. | We acknowledge our responsibility for the fair presentation of the Department's financial statements. We believe the Department's financial statements, accompanying notes, and supplementary schedules present fairly the financial position, results of operation, changes in financial position, and reconciliation to budget in conformity with generally accepted accounting principles for Federal agencies. Such principles have been consistently applied and used in the preparation of the financial statements for the fiscal year ended September 30, 1997. |
| CFO &
HEADS OF
DEPT ELEMENTS | 2. | We acknowledge our responsibility for the fair presentation of the (financial) performance measure information presented in the Overview and Supplemental Information sections of the financial statements. This data is properly supported and is believed to be accurate and reliable as it faithfully represents the results of funded activities. |
| CFO | 3. | We have made available to you all financial records and related data. We are not aware of any accounts, transactions, or material agreements not fully described and properly recorded in the financial and accounting records underlying the financial statements. |
| CFO HR | 4. | We have made available to you all significant contracts and agreements. We have complied with all aspects of these contractual agreements that would have a material effect on the financial statements in the event of noncompliance. |
| CFO EM
DP MD PO
HR FE | 5. | We have no plans or intentions that may materially affect the carrying value or classifications of assets and liabilities as reflected in the financial statements. |

- FMFIA** 6. We acknowledge management's responsibility for compliance with laws and regulations applicable to the Department's programs and have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
- FMFIA** 7. There have been no communications from regulatory and oversight agencies, including but not limited to the Office of Management and Budget, Department of the Treasury and the General Accounting Office, concerning noncompliance with, or deficiencies in, financial reporting practices or other matters that could have a material effect on the financial statements.

OWNERSHIP AND PLEDGING OF ASSETS

- CFO** 8. The Department has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.

RECEIVABLES

- CFO** 9. Advances, accounts, loans, and notes receivable represent bona fide claims against debtors for charges arising on or before September 30, 1997.
- CFO** 10. Adequate provision has been made for losses, costs, and expenses that may be incurred subsequent to September 30, 1997, in respect to sales and services rendered prior to that date and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at that date.

INVENTORIES

- CFO HR MD**
EM DP FE 11. Inventories and materials are stated at historical cost in accordance with Statement of Federal Financial Accounting Standard Number 3., except where valuation at net realizable value is authorized by the Standard. These exceptions include (1) stockpile materials that management has determined have permanently declined in value below cost or are damaged or decayed; (2) excess, obsolete, or unserviceable items; and (3) petroleum produced for sale at the Department's Naval Petroleum Reserves.
PO

- CFO HR DP**
FE EM 12. Where feasible, physical counts and measurements of inventories and stockpile materials were made and records were appropriately adjusted to reflect the physical inventories.

INVESTMENTS

- CFO** 13. None of the investments held by the agency has permanently declined in value to less than the carrying value in the financial statements.

CAPITAL ASSETS

- CFO** 14. All capital assets are properly categorized as either work-in-progress or completed projects as required in agency policy.
- CFO** 15. The Department has recorded all capital assets to which it holds title in the financial statements.

RELATED PARTY TRANSACTIONS

- CFO** 16. All intra-agency and interfund transactions and the related accounts receivable or payable, including appropriation reimbursements, and transfers in and out have been properly recorded or disclosed in the financial statements.

LIABILITIES

- CFO EM DP HR** 17. All liabilities, of which we are aware, have been properly recorded and/or disclosed in the financial statements. Adequate provision has been made for losses expected to occur on guaranteed loans outstanding as of September 30, 1997.
- CFO** 18. All estimates developed by this Operations/Field Office and provided to the Office of the Chief Financial Officer were developed in accordance with Departmental guidance. These estimates are complete and were prepared utilizing the most recent information available to management as of September 30, 1997.

CONTINGENT LIABILITIES

- CFO** 19. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 "Accounting for Contingencies" other than those disclosed in Note 25.
- CFO** 20. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5, nor are there any accruals for loss contingencies included in the statement of overall financial position that are not in conformity with the provisions of Statement of Financial Accounting Standards No. 5.

ORAL AND WRITTEN GUARANTEES OF THE DEBT OF OTHERS

- CFO** 21. There are no oral or written guarantees of the debt of others.

PURCHASE AND SALES COMMITMENTS

- HR CFO** 22. At September 30, 1997, the Department had no material purchase commitments in excess of normal requirements or at prices that were in excess of market at that date, and no important sales commitments that it is unable to fulfill or that were at prices less than costs or expected costs to purchase or manufacture, increased by selling expenses, which would include the Department's added factor.
- HR CFO** 23. There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 1997, for future contracts, short sales, or hedge transactions.

COST ALLOCATION

- CFO HEADS OF DEPT ELEMENTS** 24. Costs have been recorded in accordance with the Statement of Federal Financial Accounting Standard Number 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government". Indirect costs were allocated to responsibility segments in an equitable manner resulting in a reasonably accurate presentation of total costs.

INTERNAL CONTROL STRUCTURE

- FMFIA** 25. We recognize that management is responsible for establishing and maintaining an effective internal control structure at the Department. Therefore, we have evaluated the internal controls of the Department and reported the results. My Federal Managers' Financial Integrity Act Report to the President details all reportable problems and nonconformances of the Department as required by Sections 2 and 4 of the Act.

IRREGULARITIES OR CONFLICTS OF INTEREST

- FMFIA** 26. There have been no known irregularities involving management or employees who have significant control over the internal control structure. There are no known irregularities involving other employees that could have a material effect on the financial statements.

SUBSEQUENT EVENTS

- CFO EM HR DP FE MD PO** 27. There are no known events or transactions that have occurred since September 30, 1997, or are pending, that would require adjustment to, or disclosure in, the financial statements.

INSTRUCTIONS

1. Field CFOs will submit a management representation letter addressed to the Secretary through the Head of the Departmental Element by November 7, 1997. The letter should be forwarded to the Office of Program Liaison and Financial Analysis Attention: Genoa Mitchell, CR-30, GTN, Rm C-176. The Office of Program Liaison & Financial Analysis will consolidate the field responses and present the information to the Secretary in preparation for signature on the final package.
2. Field CFO management representation letters will serve to support the Secretary's final management representation package and the specific assertions the Acting CFO will sign. The representation letter is an integral part of the financial statement audit, the letter assists the Inspector General in forming an opinion whether the Department's financial statements presently fairly, in material respects, the financial position, results of operation, changes in financial position, and reconciliation to budget in conformity with accounting principles.
3. Field CFOs should model their representation letters on the draft included as attachment A. This draft includes all possible assertions, some may not be applicable to all Offices. Assertions not applicable to your Office should be excluded from your letter. Please identify any exceptions to the assertions applicable to your office. It may also be necessary to include exceptions or further explanation to some assertions. Such assertions should be fully explained in the letter and any supporting information you think would be helpful in the determination of inclusion in the final package would be appreciated.
4. Attachment A has been highlighted to show which offices are responsible for specific assertions. Field CFOs should address all CFO assertions and where possible contact other responsible managers for input. As noted, the Department's FMFIA process will serve to support several assertions (6,7,25,&26) which need not be addressed in the Field CFO letters.
5. Field CFOs should base their assertions on a detailed analysis of their respective financial statement accounts. This analysis should build upon the Financial Statement Analysis and Footnote Disclosure requirements issued separately and due to the Office of Financial Control and Reporting.
6. The FY 1996 Financial Statement Audit resulted in a Management Report which included a recommendation on Performance Measure Reporting. The Inspector General recommended that the internal control structure for reporting performance measures be strengthened. Accordingly, the Office of the Chief Financial Officer and Office of Policy and International Affairs stress the importance of accurate reporting of performance results and the maintenance of adequate supporting documentation. Field CFOs should consider this prior to attesting to the performance measure assertion. Each Field CFO is responsible for ensuring financial performance measurement data reported to Headquarters is accurate, reliable, and adequately supported.

7. The Secretary's final package will be dated to correspond with the last date of the auditor's field work. Field CFOs are asked to prepare their letter based on knowledge as of the date of their report. Any subsequent events should be reported to the Office of Program Liaison and Financial Analysis promptly.
8. PMAs - As in the past, these organizations will not be required to issue a complete management representation letter to the Secretary. It is assumed these organizations will provide the cognizant auditor with all the necessary assertions for the PMA's FY 1997 financial statement audit. However, the CFO will need attestations on the data submitted for combination with the Department's financial activity and performance measurement information. Attestations similar to those listed below may be used as a starting point:

The information provided to the Office of the Chief Financial Officer by *Power Marketing Administration* and consolidated into the Department-wide financial activity presented in the Departmental financial statement, accurately reflects the Department of Energy's portion of *Power Marketing Administration's* financial activity.

We acknowledge our responsibility for the fair presentation of the (financial) performance measure information presented in the Overview and Supplemental Information sections of the financial statements. We believe this data to be accurate and reliable.